The Mortgage Metrics Borrower Experience

ALIGNING BACK OFFICE COMPENSATION WITH ACHIEVING A SUPERIOR BORROWER EXPERIENCE

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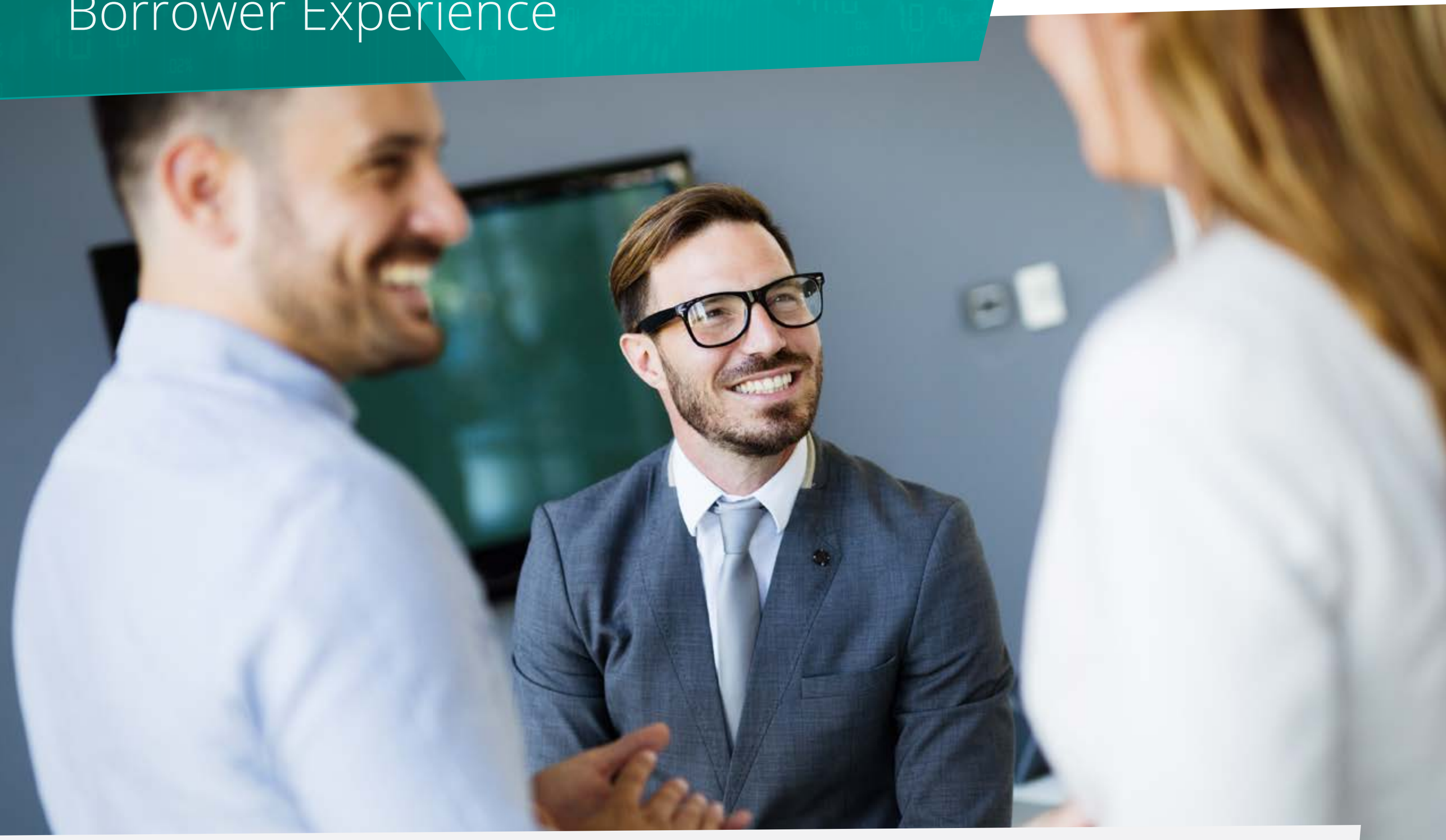

ALIGNING BACK OFFICE COMPENSATION WITH ACHIEVING A SUPERIOR BORROWER EXPERIENCE

By Dr. Matt Lind, Senior Partner

At STRATMOR, we believe that the mortgage industry is undergoing a fundamental shift in the competitive landscape whereby delivering a superior, broadly-defined borrower experience is the new competitive paradigm. Gone or going are the days of low cost producers striving for "acceptable" service levels — today's borrowers expect superior service that includes such things as sound product selection advice, timely and good communications, closing at the expected rates and fees and closing on time.

The emergence of the borrower experience rather than price as the primary basis for competition is not rooted in simple "feel good" strategies but rather, in hard data about why borrowers choose a lender. When the borrower is happy, they refer friends and family to you, post positive comments online at your website and on social media and they come back to do business with you again.

According to STRATMOR's MortgageSAT Borrower Satisfaction Program data shown in *Illustration 1*, for the twelve-month period ending June 30, 2018, the top three reasons borrowers choose a lender are based on relationships. For purchase borrowers the top three reasons are: a real estate agent or builder referral (53%); an existing relationship with a lender or originator (19%); and a referral from a family member or friend (17%). For refinance borrowers the top reasons include: an existing relationship with the lender or originator (56%) or a referral from a family member or friend (15%).

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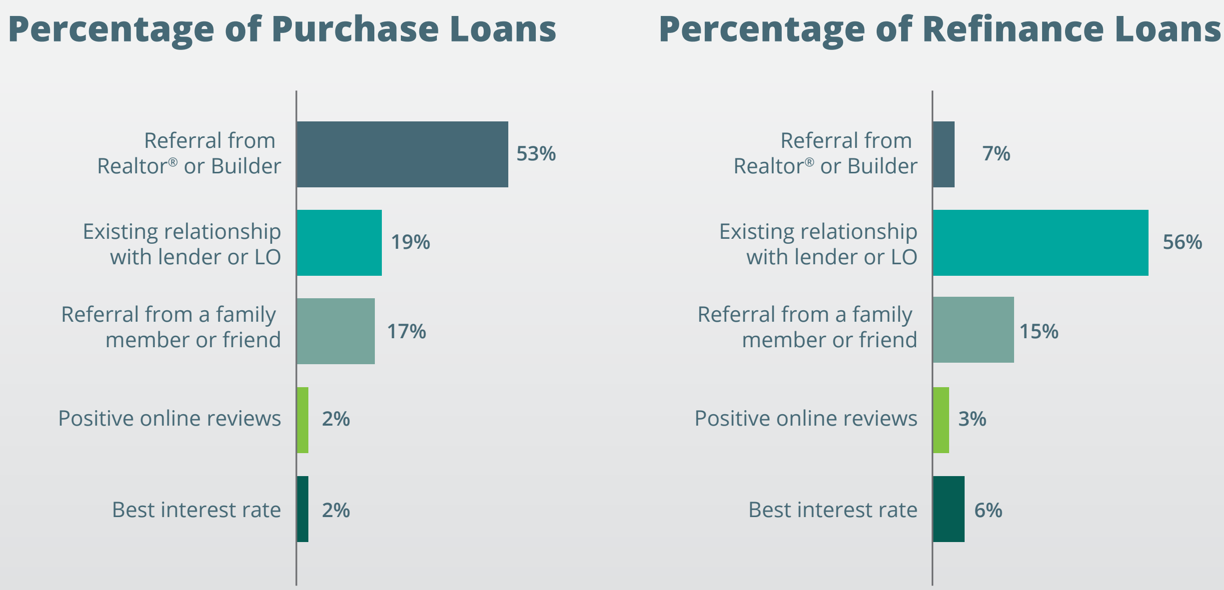
Illustration 1



Source: MortgageSAT Borrower Satisfaction Program, 2017. © STRATMOR Group, 2018.

A referral from a family member, friend, or real estate agent will only happen if the referral source had a positive origination or servicing experience with the lender. And, while the borrower may give their originator high marks, MortgageSAT data has demonstrated that overall satisfaction depends on many considerations that are outside the direct control of the originator, for example, a request for additional documents from the underwriter. Price (best interest rate) is not what drives borrower selection of a lender. In fact, price is the primary reason for lender selection for only about six percent of refinance borrowers and two percent of purchase borrowers.

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With the borrower experience now becoming the primary basis for building competitive advantage, shouldn't mortgage lender compensation plans include measures and rewards aligned with elevating the borrower experience? According to data from STRATMOR's 2017 Compensation Connection Study, such incentives and rewards are nowhere to be found in back office compensation plans.

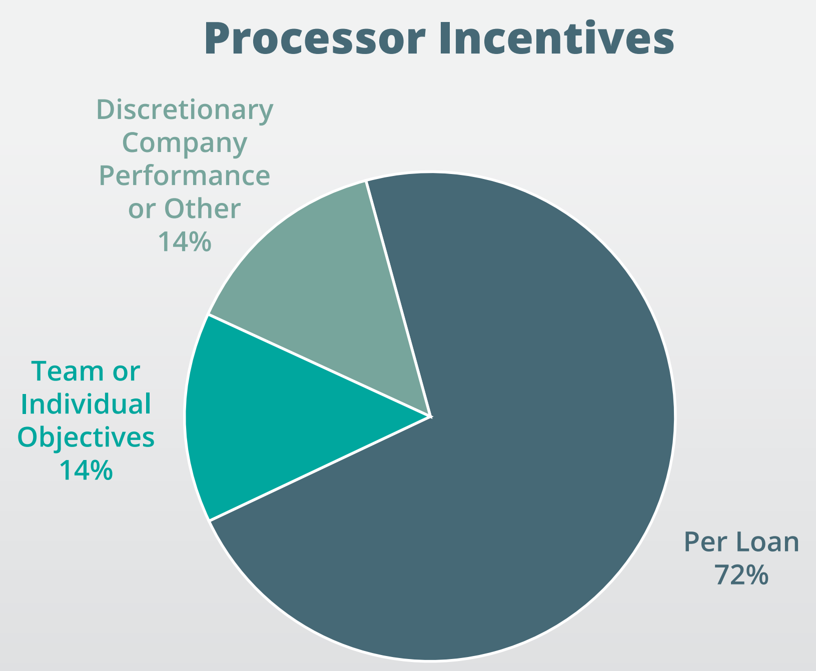
Current Back Office Compensation Practices and Incentives

Two roles in back office operations have a significant impact on the borrower experience: processors and closers.

Based on the companies reporting for 2017 results, 89 percent of processors were paid incentives on top of their base salary. For the same period, the average processor total compensation was $61,234, and on average $11,248 was incentive based. This represents 18 percent of total compensation. Incentives play a meaningful role in overall processor compensation.

As shown in *Chart 2*, for the processors who do receive cash incentive compensation, 72 percent receive their compensation in the form of a flat or tiered dollar per loan incentive, with the remaining 28 percent split between team or individual objectives and discretionary or company performance pools. For the 14 percent of payouts based on objectives, the biggest drivers are department productivity, cycle times and measures of file quality.

Chart 2



Source: Compensation Connection Study, 2017. © STRATMOR Group, 2018.

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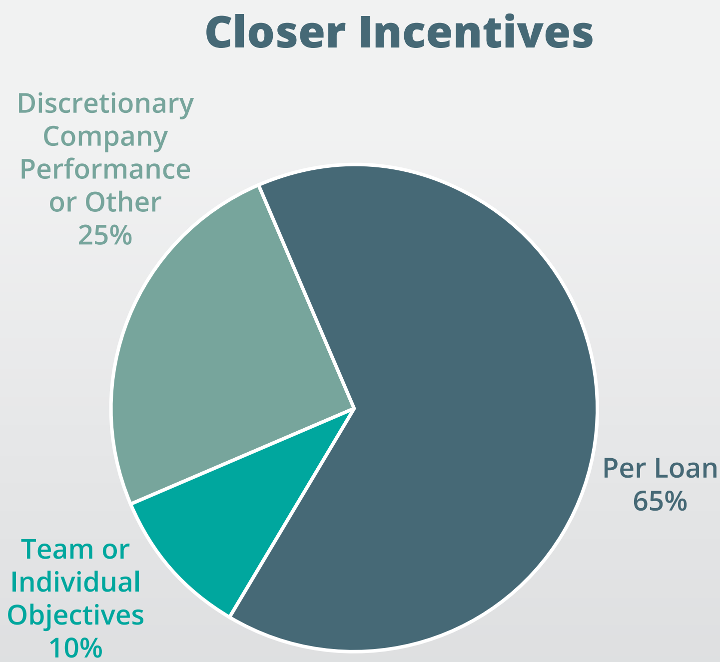
Except for objectives related to cycle times, which will indirectly correlate to borrower experience, none of the processor incentive compensation components directly involve any measure of the borrower experience.

Closers also play an important role in the fulfillment process and are critical to ensuring that closings happen on time. According to the 2017 Compensation Connection Study, 77 percent of closers were paid incentive or variable compensation. These incentives represented ten percent of their total compensation which is less than processors but still significant.

The components of closer incentive compensation, like processors, are primarily volume-driven and not based on the borrower experience except, as noted previously, in the few instances where cycle times is a factor. As seen in *Chart 3*, 65 percent of the incentives are paid on a per loan basis with only 10 percent coming from achievement of either team or personal goals. Included in these objectives are overall team productivity, cycle times and file quality.

Chart 3



Source: Compensation Connection Study, 2017. © STRATMOR Group, 2018.

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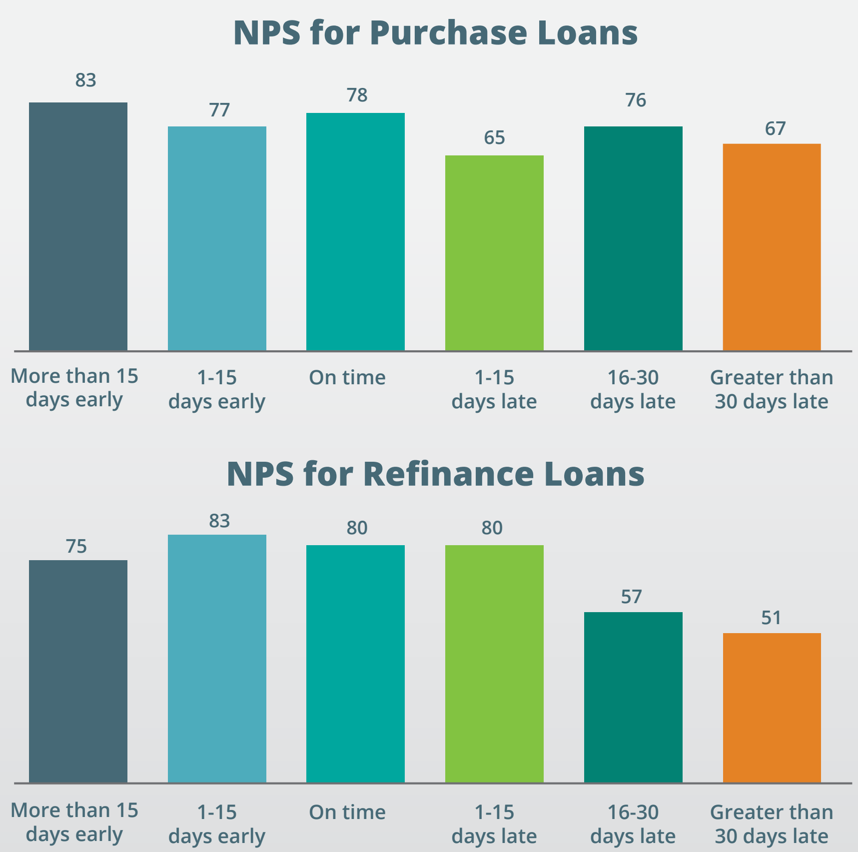
MortgageSAT data suggests that cycle times — speed — is far less important to borrowers than most lenders think. What is important to borrowers is that their loan closes within the expected time frame, whether that time frame reflects rapid cycle times or not.

According to MortgageSAT findings, the Net Promoter Score (NPS)[1] varies depending on differences between the actual and target loan closing dates. These results are based on over one-hundred thousand MortgageSAT survey responses received from borrowers over the twelve-month period between July 1, 2017 and June 30, 2018, shown in *Illustration 4*.

Illustration 4



Source: MortgageSAT Borrower Satisfaction Program, 2017. © STRATMOR Group, 2018.

[1]The NPS score is defined as the average number of borrowers out of each 100 borrowers who registered a Satisfaction score of 9-10 out of a possible 10 (so-called Promoters) minus the average number who registered a Satisfaction score of 1-6 out of a possible 10 (so-called Detractors).

For both purchase and refinance loans, there is relatively little drop in NPS scores until the actual closing occurs more than 15 days beyond the initially targeted closing date for refinances and a month for purchase loans. Delays in purchase closings often reflect non-lender causes, for example, a delay resulting from seller repairs necessitated by an adverse property inspection report. Where this is the case, the lender is not held accountable by the borrower. For refinance loans, closing delays beyond a couple of weeks of the target closing date result in a sharp decline in NPS scores. Such delays anger those refinance borrowers who were hoping to reduce their monthly mortgage payments or, in the case of cash-out refinances, use cash-out proceeds to start a home improvement project or purchase a big-ticket item.

The important point here is that a superior borrower experience involves much more than fast cycle times which, in any event, are currently a small factor in determining the cash incentives paid to both processors and closers.

Aligning Back Office Compensation with Achieving a Superior Borrower Experience

Designing customer-centric back office compensation to motivate processors and closers to provide an exceptional borrower experience can only be achieved if:

1. **The borrower experience is measured and tracked.** Asking a borrower at the closing table to rate their experience in the presence of their loan originator is obviously not a good way to go. It's better to solicit borrowers about their experience away from the closing table. What questions you ask the borrower are important, too, as simply asking borrowers to rate their satisfaction has been shown to be unreliable. A much better approach — the approach taken in the MortgageSAT Program — is to have the borrower rate their satisfaction across various aspects of the borrowing experience and then ask them to score their overall satisfaction.

2. **The measure of borrower experience can be translated into value.** High satisfaction or NPS scores are associated with an increased likelihood that a borrower will become a repeat borrower for their next purchase or refinance loan. How do you monetize such a result? For example, suppose your NPS score is 100, meaning that 100 percent of your borrowers rated their satisfaction with you at 9-10 on a 10-point scale. In effect, every one of your borrowers is a "promoter." The leads and closed loans you are likely to receive from these 100 promoters add up.

Table 5 shows that roughly 16 percent of borrowers select their lender primarily based on a referral from a family member or friend — a promoter. According to MortgageSAT data, for the 12-months ending June 30, 2018, MortgageSAT lenders received, on average, an NPS score of 75, consisting of 83 promoters and nine detractors for each 100 borrowers.

Table 5

Attribute Table	Qtr 3, 2017 - Qtr 2, 2018
Sample Size	110,468
% Promoters (9, 10)	83
% Detractors (1-6)	9
Net Promoter Score	75

Focusing on promoters only, we could say that for each hundred borrowers, 83 promoters generated 16 borrowers, a conversion ratio of 19.3 percent. (This approach ignores the nine detractors out of each hundred borrowers who might "poor-mouth" the lender to a potential borrower and thereby cost the lender an additional loan.)

There is no one "right" way to incorporate borrower experience measurements into a model for incentive compensation for processors and closers. Every lender should adopt an approach with which they are comfortable, that they can afford and one that recognizes the competitive realities in the markets in which they operate.

For example, a lender could create a pool of dollars reflecting the value added from a positive borrower experience (as measured by NPS) that could then be distributed among the processors and closers. As an estimate of the magnitude of this approach, we assume that the improvement in NPS would lead to an increase in closed loans. If each of those loans is worth $1,500 in incremental net profit, a lender who closes an additional 100 loans in a year would see a profit improvement of $150,000. If half of that is then added back to the pool available for processor and closer incentives, then an additional $75,000 becomes available to distribute. Depending on the size of the staff, the individual awards could add a meaningful amount to total compensation.

This structure gives both processors and closers a strong incentive to improve the borrower experience.

In an increasingly borrower-centric mortgage industry, rewarding processors and closers based on a measure of the borrower experience is not an option; it is a requirement, and a smart business practice as well. To do this, lenders must have strong tools to measure the borrower experience and both the analytic methods and operational data by which to map borrower experience into its bottom-line impact.

NEED HELP CREATING A COMPENSATION MODEL?

STRATMOR has designed a compensation model that enables lenders to reward based on achievement of borrower satisfaction goals. Contact us for more information about this or any of STRATMOR's data programs, including the Compensation Connection Study and MortgageSAT Borrower Satisfaction Program.